Richmond Local Municipality
(Registration number KZN 227)
Annual Financial Statements
for the year ended June 30, 2020

## General Information

| | |
|---|---|
| **Legal form of entity** | Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act No. 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act No. 108 of 1996) |
| **Nature of business and principal activities** | Richmond Municipality is a local municipality performing the functions as set out in the Constitution of the Republic of South Africa (Act No. 108 of 1996) |
| **Legislation governing the municipality's operations** | Local Government: Municipal Finance Management Act (Act No. 56 of 2003)<br>Local Government: Municipal Systems Act (Act No. 32 of 2000)<br>Local Government: Municipal Structures Act (Act No. 117 of 1998)<br>Constitution of the Republic of South Africa (Act No. 108 of 1996)<br>Municipal Property Rates Act (Act No. 6 2004)<br>Division of Revenue Act (Act No. 1 of 2007) |
| **Mayoral Committee** | |
| Executive Mayor | Cllr. S. B. Ndlovu |
| Deputy Mayor | Cllr. K. E. Mkize |
| Speaker | N.P. Phoswa |
| Member of the Executive Committee | Cllr. S. B. Ndlovu |
| Member of the Executive Committee | Cllr. K.E. Mkize |
| Member of the Executive Committee | Cllr. T.C. Madonda |
| Councillors | N.P. Phoswa |
| | B. Mbanjwa |
| | V. Maphumulo |
| | B.R. Shange |
| | B. Ngcongo |
| | M.J. Jili |
| | S.L. Shange |
| | T.C. Madonda |
| | S. Ngubo |
| | S.J. Mchunu |
| | N.W. Mjwara |
| | S.B. Ndlovu |
| | K.E. Mkize |
| | Van der Byl |
| **Grading of local authority** | Category 3 |
| **Municipal Manager** | S. Mthembu (Acting)<br>033 212 2155<br>mm@richmond.gov.za |
| **Chief Financial Officer (CFO)** | Msizi Ngcobo<br>033 212 2155<br>cfo@richmond.gov.za |
| **Registered office** | 57 Shepstone Street<br>Richmond<br>3780 |

## General Information

| | |
|---|---|
| **Business address** | 57 Shepstone Street<br>Richmond<br>3780 |
| **Postal address** | Private Bag 1028<br>Richmond<br>3780 |
| **Bankers** | First National Bank, Nedbank |
| **Auditors** | Auditor-General of South Africa (AGSA) |

# Index

The reports and statements set out below comprise the annual financial statements presented to the council:



| | |
|---|---|
| ASB | Accounting Standards Board |
| CIGFARO | Chartered Institute of Government Finance, Audit and Risk Officers |
| COID | Compensation for Occupational Injuries and Diseases |
| AGSA | Auditor General of South Africa |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| IPSAS | International Public Sector Accounting Standards |
| IPSASB | International Public Sector Accounting Standards Board |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| mSCOA | Municipal Standard Chart of Accounts |

# Accounting Officer's Responsibilities and Approval

The Accounting Officer is responsible for the preparation of the annual financial statements in terms of section 126(1) of the Municipal Finance Management Act (Act No. 56 of 2003). The Accounting Officer is required by the Municipal Finance Management Act (Act No. 56 of 2003) to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any Interpretations, Guidelines and Directives issued by the Accounting Standards Board (ASB).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I, as the Accounting Officer, acknowledge that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, I have set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The municipality is wholly dependent on the community and government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

I certify that the salaries, allowances and benefits of councillors, as disclosed in note 28 - Councillors remuneration to these annual financial statements, are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act (Act No. 20 of 1998) and the Minister of Provincial and Local Government’s determination in accordance with the Act.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the Accounting Officer on October 30, 2020 and were signed on his/her behalf by:

**S. Mthembu**
**Acting Accounting Officer**

**Friday, October 30, 2020**

## Statement of Financial Position as at June 30, 2020

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 3 | 19,049,896 | 23,889,600 |
| Receivables from exchange transactions | 4 | 813,813 | 733,373 |
| Receivables from non exchange transactions | 5 | 27,162,007 | 17,289,363 |
| VAT receivable | 6 | 2,872,800 | 3,279,496 |
| | | **49,898,516** | **45,191,832** |
| **Non-Current Assets** | | | |
| Biological assets | 10 | 3,389,506 | 13,759,506 |
| Heritage assets | 11 | 212,767 | 212,767 |
| Intangible assets | 8 | 938,172 | 660,849 |
| Investment property | 9 | 1,185,899 | 1,185,899 |
| Non-current investment | 48 | 266 | 266 |
| Property, plant and equipment | 7 | 340,593,613 | 339,081,435 |
| | | **346,320,223** | **354,900,722** |
| **Total Assets** | | **396,218,739** | **400,092,554** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Payables from exchange transactions | 12 | 13,240,816 | 12,507,198 |
| Trade payables from non-exchange | 13 | 3,038,744 | 901,698 |
| Unspent conditional grants and receipts | 14 | 14,770,187 | 8,426,048 |
| Operating lease liability | 15 | 509,753 | 478,884 |
| Finance lease obligation | 16 | 223,585 | 201,891 |
| Employee benifit obligation | 17 | 551,000 | 284,284 |
| Provisions | 18 | 4,676,727 | 3,597,865 |
| | | **37,010,812** | **26,397,868** |
| **Non-Current Liabilities** | | | |
| Finance lease obligation | 16 | 204,568 | 428,153 |
| Employee benifit obligation | 17 | 7,412,000 | 10,938,008 |
| Provisions | 18 | 7,651,644 | 6,716,160 |
| | | **15,268,212** | **18,082,321** |
| **Total Liabilities** | | **52,279,024** | **44,480,189** |
| **Net Assets** | | **343,939,715** | **355,612,365** |
| Accumulated surplus | | 343,939,715 | 355,612,365 |

* See Note 47

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 19 | 618,462 | 1,046,465 |
| Rental of facilities and equipment | 20 | 715,418 | 1,085,809 |
| Interest earned - Outstanding debtors | | 88,622 | 268,579 |
| Interest revenue | 21 | 1,805,816 | 2,528,939 |
| Other income | 22 | 619,016 | 425,110 |
| **Total revenue from exchange transactions** | | **3,847,334** | **5,354,902** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 23 | 17,894,577 | 17,215,842 |
| Property rates - penalties imposed and collection charges | 23 | 3,488,475 | 3,020,026 |
| Licences and permits | 24 | 504,122 | 529,235 |
| **Transfer revenue** | | | |
| Government grants and subsidies received | 25 | 93,543,460 | 89,061,398 |
| Fines | 26 | 571,959 | 251,600 |
| **Total revenue from non-exchange transactions** | | **116,002,593** | **110,078,101** |
| **Total revenue** | | **119,849,927** | **115,433,003** |
| **Expenditure** | | | |
| Employee related costs | 27 | (56,453,902) | (48,817,307) |
| Remuneration of councillors | 28 | (6,029,619) | (5,764,248) |
| Depreciation and amortisation | 29 | (16,383,788) | (17,940,880) |
| Impairment losses | 30 | (4,927,301) | (4,788,410) |
| Finance costs | 31 | (270,025) | (260,472) |
| Lease rentals on operating lease | 32 | (372,720) | (673,130) |
| Operational costs | 33 | (40,830,043) | (34,527,494) |
| **Total expenditure** | | **(125,267,398)** | **(112,771,941)** |
| **Operating Surplus (deficit) for the year** | | **(5,417,471)** | **3,586,833** |
| Actuarial gains and losses | 17 | (4,760,370) | (1,825,063) |
| Fair value adjustment - valuation of plantation | | 10,370,000 | (925,771) |
| **(Deficit) surplus for the year** | | **(11,027,101)** | **5,411,956** |

* See Note 47

# Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| **Balance at July 1, 2018** | **350,200,469** | **350,200,469** |
| Changes in net assets | | |
| Surplus for the year | 5,411,896 | 5,411,896 |
| Total changes | 5,411,896 | 5,411,896 |
| Opening balance as previously reported | 350,792,697 | 350,792,697 |
| Adjustments | | |
| Prior year adjustments | 4,174,119 | 4,174,119 |
| **Restated* Balance at July 1, 2019 as restated*** | **354,966,816** | **354,966,816** |
| Changes in net assets | | |
| Surplus for the year | (11,027,101) | (11,027,101) |
| Total changes | (11,027,101) | (11,027,101) |
| **Balance at June 30, 2020** | **343,939,715** | **343,939,715** |

Note(s)

* See Note 47

# Cash Flow Statement

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Property rates | | 16,759,416 | 17,817,730 |
| Services charges | | 627,067 | 293,212 |
| Grants | | 101,985,868 | 131,322,292 |
| Interest received | | 1,665,174 | 2,528,939 |
| Other receipts | | - | 2,515,954 |
| | | 121,037,525 | 154,478,127 |
| **Payments** | | | |
| Employee costs | | (55,539,283) | (46,878,291) |
| Suppliers | | (45,121,887) | (87,063,468) |
| Finance costs | | (216,932) | (260,472) |
| Remuneration of councillors | | (6,029,619) | (5,764,248) |
| | | (106,907,721) | (139,966,479) |
| **Net cash flows from operating activities** | 35 | **14,129,804** | **14,511,648** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 7 | (18,184,040) | (24,663,487) |
| Purchase of other intangible assets | 8 | (372,272) | - |
| **Net cash flows from investing activities** | | **(18,556,312)** | **(24,663,487)** |
| **Cash flows from financing activities** | | | |
| Finance lease payments | | (413,196) | (300,454) |
| **Net increase/(decrease) in cash and cash equivalents** | | **(4,839,704)** | **(10,452,293)** |
| Cash and cash equivalents at the beginning of the year | | 23,889,600 | 34,341,893 |
| **Cash and cash equivalents at the end of the year** | 3 | **19,049,896** | **23,889,600** |

* See Note 47

# Richmond Local Municipality

(Registration number KZN 227)
Annual Financial Statements for the year ended June 30, 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
| --- | --- | --- | --- | --- | --- | --- |
| **Statement of financial performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 809,178 | - | **809,178** | 618,462 | **(190,716)** | Ref -1 |
| Rental of facilities and equipment | 1,045,668 | - | **1,045,668** | 715,418 | **(330,250)** | Ref -1 |
| Interest received - trading | 105,996 | - | **105,996** | 88,602 | **(17,394)** | Ref -1 |
| Other income | 5,867,404 | (3,500,000) | **2,367,404** | 619,016 | **(1,748,388)** | Ref -1 |
| Interest received - investment | 3,104,396 | - | **3,104,396** | 1,805,816 | **(1,298,580)** | Ref -1 |
| **Total revenue from exchange transactions** | **10,932,642** | **(3,500,000)** | **7,432,642** | **3,847,314** | **(3,585,328)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 18,586,333 | - | **18,586,333** | 17,894,577 | **(691,756)** | Ref -1 |
| Property rates - penalties imposed | - | - | **-** | 3,488,475 | **3,488,475** | |
| Licences and permits (non-exchange) | 869,200 | - | **869,200** | 504,122 | **(365,078)** | Ref -1 |
| **Transfer revenue** | | | | | | |
| Government grants and subsidies | 77,275,100 | 745,000 | **78,020,100** | 93,543,460 | **15,523,360** | Ref -1 |
| Fines, penalties and forfeits | 1,913,304 | - | **1,913,304** | 571,959 | **(1,341,345)** | Ref -1 |
| **Total revenue from non-exchange transactions** | **98,643,937** | **745,000** | **99,388,937** | **116,002,593** | **16,613,656** | |
| **Total revenue** | **109,576,579** | **(2,755,000)** | **106,821,579** | **119,849,907** | **13,028,328** | |
| **Expenditure** | | | | | | |
| Employee costs | 51,287,578 | (2,103,849) | **49,183,729** | 56,453,902 | **7,270,173** | Ref -1 |
| Remuneration of councillors | 6,624,475 | (972,055) | **5,652,420** | 6,029,619 | **377,199** | Ref -1 |
| Depreciation and amortisation | 18,612,276 | - | **18,612,276** | 16,383,788 | **(2,228,488)** | Ref -1 |
| Impairment loss/ Reversal of impairments | 3,759,070 | (1,000,000) | **2,759,070** | 4,927,301 | **2,168,231** | Ref -1 |
| Finance costs | 183,000 | - | **183,000** | 270,025 | **87,025** | Ref -1 |
| Lease rentals on operating lease | - | - | **-** | 372,720 | **372,720** | Ref -1 |
| Contracted services | 20,135,008 | 5,618,710 | **25,753,718** | 24,618,822 | **(1,134,896)** | Ref -1 |
| Transfers and subsidies | 954,000 | - | **954,000** | 733,755 | **(220,245)** | Ref -1 |
| General expenses | 18,570,235 | 664,528 | **19,234,763** | 15,477,466 | **(3,757,297)** | Ref -1 |
| **Total expenditure** | **120,125,642** | **2,207,334** | **122,332,976** | **125,267,398** | **2,934,422** | |
| **Operating deficit** | **(10,549,063)** | **(4,962,334)** | **(15,511,397)** | **(5,417,471)** | **10,093,926** | |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial and District) | 19,844,904 | 10,000,000 | **29,844,904** | - | **(29,844,904)** | Ref -1 |
| Transfers and subsidies - capital (in-kind - all) | 27,048 | - | **27,048** | - | **(27,048)** | Ref -1 |
| | **19,871,952** | **10,000,000** | **29,871,952** | **-** | **(29,871,952)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Deficit before taxation** | **9,322,889** | **5,037,666** | **14,360,555** | **(5,417,471)** | **(19,778,026)** | |
| Gains and Losses (Actuarial and Valuation of Plantation) | - | - | **-** | 5,609,630 | **5,609,630** | Ref -1 |
| **Actual amount on comparable basis as presented in the budget and actual comparative statement** | **9,322,889** | **5,037,666** | **14,360,555** | **(11,027,101)** | **(25,387,656)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of financial position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 995 | - | **995** | - | **(995)** | Ref -1 |
| Non-curent Investment | 13,704,823 | - | **13,704,823** | - | **(13,704,823)** | Ref -1 |
| Receivables from exchange transactions | - | - | **-** | 813,813 | **813,813** | Ref -1 |
| Receivables from non exchange transactions | 18,418,965 | - | **18,418,965** | 27,162,007 | **8,743,042** | |
| VAT receivable | - | - | **-** | 2,872,800 | **2,872,800** | Ref -1 |
| Other debtors | 2,820,674 | - | **2,820,674** | - | **(2,820,674)** | Ref -1 |
| Cash and cash equivalents | 24,850,118 | (4,765,965) | **20,084,153** | 19,049,896 | **(1,034,257)** | |
| | **59,795,575** | **(4,765,965)** | **55,029,610** | **49,898,516** | **(5,131,094)** | |
| **Non-Current Assets** | | | | | | |
| Biological assets | - | (1,000,000) | **(1,000,000)** | 3,389,506 | **4,389,506** | Ref -1 |
| Investment property | 7,820,000 | - | **7,820,000** | 1,185,899 | **(6,634,101)** | Ref -1 |
| Property, plant and equipment | 337,935,553 | 10,309,870 | **348,245,423** | 340,593,613 | **(7,651,810)** | Ref -1 |
| Intangible assets | 796,693 | - | **796,693** | 938,172 | **141,479** | Ref -v |
| Heritage assets | - | - | **-** | 212,767 | **212,767** | Ref -1 |
| Investment | 266 | - | **266** | 266 | **-** | |
| | **346,552,512** | **9,309,870** | **355,862,382** | **346,320,223** | **(9,542,159)** | |
| **Total Assets** | **406,348,087** | **4,543,905** | **410,891,992** | **396,218,739** | **(14,673,253)** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Finance lease obligation | - | - | **-** | 223,585 | **223,585** | Ref -1 |
| Operating lease liability | - | - | **-** | 509,753 | **509,753** | Ref -1 |
| Payables from exchange transactions | 21,827,913 | - | **21,827,913** | 13,240,816 | **(8,587,097)** | Ref -1 |
| Taxes and transfers payable (non-exchange) | - | - | **-** | 3,038,744 | **3,038,744** | Ref -1 |
| Employee benifit obligation | - | - | **-** | 551,000 | **551,000** | Ref -1 |
| Unspent conditional grants and receipts | - | - | **-** | 14,770,187 | **14,770,187** | Ref -1 |
| Provisions | 258,234 | - | **258,234** | 4,676,727 | **4,418,493** | Ref -1 |
| | **22,086,147** | **-** | **22,086,147** | **37,010,812** | **14,924,665** | |
| **Non-Current Liabilities** | | | | | | |
| Borrowings | 8,754,363 | - | **8,754,363** | - | **(8,754,363)** | Ref -1 |
| Finance lease obligation | - | - | **-** | 204,568 | **204,568** | Ref -1 |
| Employee benifit obligation | - | - | **-** | 7,412,000 | **7,412,000** | Ref -1 |
| Provisions | 8,664,661 | - | **8,664,661** | 7,651,644 | **(1,013,017)** | Ref -1 |
| | **17,419,024** | **-** | **17,419,024** | **15,268,212** | **(2,150,812)** | |
| **Total Liabilities** | **39,505,171** | **-** | **39,505,171** | **52,279,024** | **12,773,853** | |
| **Net Assets** | **366,842,916** | **4,543,905** | **371,386,821** | **343,939,715** | **(27,447,106)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 366,842,916 | 4,543,905 | **371,386,821** | 343,939,715 | **(27,447,106)** | Ref -1 |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash flow statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Property rates | 15,616,094 | 2,040,922 | **17,657,016** | 14,080,700 | **(3,576,316)** | Ref -1 |
| Service Charges | 917,296 | (47,881) | **869,415** | - | **(869,415)** | Ref -1 |
| Government - operating | 77,302,148 | (27,048) | **77,275,100** | 76,726,900 | **(548,200)** | Ref -1 |
| Government - capital | 19,844,904 | 8,320,023 | **28,164,927** | 16,816,555 | **(11,348,372)** | Ref -1 |
| Other revenue | 7,308,799 | (3,500,000) | **3,808,799** | 1,907,339 | **(1,901,460)** | Ref -1 |
| Interest Income | - | 3,104,396 | **3,104,396** | 1,805,816 | **(1,298,580)** | Ref -1 |
| | **120,989,241** | **9,890,412** | **130,879,653** | **111,337,310** | **(19,542,343)** | |
| **Payments** | | | | | | |
| Employee costs and Suppliers | (96,333,748) | (1,024,715) | **(97,358,463)** | (95,710,096) | **1,648,367** | Ref -1 |
| Finance costs | (183,000) | - | **(183,000)** | (216,932) | **(33,932)** | Ref -1 |
| Transfers and Grants | - | - | **-** | (1,509,144) | **(1,509,144)** | Ref -1 |
| | **(96,516,748)** | **(1,024,715)** | **(97,541,463)** | **(97,436,172)** | **105,291** | |
| **Net cash flows from operating activities** | **24,472,493** | **8,865,697** | **33,338,190** | **13,901,138** | **(19,437,052)** | |
| **Cash flows from investing activities** | | | | | | |
| Capital assets | (27,560,370) | (12,104,420) | **(39,664,790)** | (18,184,040) | **21,480,750** | Ref -1 |
| Proceeds from sale of non-current investments | (266) | - | **(266)** | - | **266** | Ref -1 |
| Purchase of other asset | - | - | **-** | - | **-** | |
| **Net cash flows from investing activities** | **(27,560,636)** | **(12,104,420)** | **(39,665,056)** | **(18,184,040)** | **21,481,016** | |
| Net increase/(decrease) in cash and cash equivalents | (3,088,143) | (3,238,723) | **(6,326,866)** | (4,282,902) | **2,043,964** | Ref -1 |
| Cash and cash equivalents at the beginning of the year | - | - | **-** | 23,889,600 | **23,889,600** | Ref -1 |
| **Cash and cash equivalents at the end of the year** | **(3,088,143)** | **(3,238,723)** | **(6,326,866)** | **19,606,698** | **25,933,564** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|

**Ref -1**

**The reasons for the difference between budget and actual:**

**<u>Revenue – Variances</u>**

**Service charges**- Classification of Siyathuka residents as indigent resulting in non-billing .

**Rental of facilities and equipment**- Due to covid-19 pandemic, shops and stalls occupants were given amnesty on their monthly rentals.

**Interest received** – trading- Marginal variance, budget met for 2020.

**Other income** – No sale of timber from the plantation due to illegal harvesting

**Interest received** – investment - Due to non-extensive investment of excess cash / funds (low cash reserves)

**Property rates** - Marginal variance, budget met for 2020.

**Property rates – penalties imposed**. Items budgeted for under; fines, penalties and forfeits in line with the mSCOA Chart, budget was met.

**Licenses and permits (non-exchange)** – The municipality was not operational due to lockdown.

**Government grants and subsidies** – Marginal variance, budget met for 2020.

**Fines, penalties and forfeits** - The municipality was not operational due to lockdown and there was an amnesty from the government which led to reversal of penalties already raised.

**<u>Expenditure - Variances</u>**

**Employee cost** – variance caused by the implementation of job evaluation during the year and also by a higher contribution to leave pay provision due to staff not taking leave during the lockdown.

**Remuneration of councilors** – Marginal variance, budget met for 2020.

**Depreciation and amortization** - Marginal variance, budget met for 2020.

**Impairment loss/ Reversal of impairments** – Non-payment of accounts by consumers due to Covid-19 pandemic resulted increased in accounts being outstanding for a longer period.

**Finance costs** - Under budgeted for interest cost relating to unwinding of landfill site provision.

**Lease rentals on operating lease** - Currently budgeted under operational cost / general expenses in terms of the mSCOA Chart.

**Contracted services** - Marginal variance, budget met for 2020.

**Transfers and subsidies** –in line with the budget

**General expenses** - Budget saving due to the implementation of cost containment measures

# Accounting Policies

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.Refer to note 46 for the going concern assesment performed.

### 1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

### 1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

**Trade Receivables**

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is first for individually significant receivables and then calculated on a portfolio basis for the remaining balance, including those individually significant loans and receivables for which no indicators of impairment were found. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

For trade receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the loan's or receivable's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the loans and receivables.

# Accounting Policies

### 1.4 Significant judgements and sources of estimation uncertainty (continued)

**Allowance for slow moving, damaged and obsolete stock**

An assessment is made of net realisable value of inventory at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided.

Management has made estimates of the selling price and direct cost to sell on certain inventory items.

The write down is included in surplus or deficit.

**Fair value estimation**

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

**Impairment testing**

The recoverable amounts of potentially impaired cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption made may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

Value in use of cash-generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as supply and demand, together with economic factors such as exchange rates and inflation interes.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

**Taxation**

The Richmond Local municipality is exempt from tax in terms of section 10(1)(a) of the Income Tax Act.

**Useful lives of property, plant and equipment and other assets**

The municipality's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and other assets. This estimate involves a matter of judgement based on the experience of the municipality with similar assets. The municipality considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease the depreciation charge where useful lives are more than previously estimated useful lives.

## Accounting Policies

### 1.4 Significant judgements and sources of estimation uncertainty (continued)

**Post-retirement benefits**

The present value of the post-retirement and long-term obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement and long-term obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post-retirement and long-term obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note 17.

**Effective interest rate**

The municipality uses the prime interest rate to discount other future cash flows.This interest rate is adjusted for risk where appropriate.

**Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.5 Biological assets

The municipality recognises a biological asset that forms part of an agricultural activity or agricultural produce when, and only when:

- the municipality controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of the plantations is based on the combined fair value of the land and the pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the pine trees.

A gain or loss arising on initial recognition of a biological asset that forms part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset that forms part of an agricultural activity is included in surplus or deficit for the period in which it arises.

A biological asset that forms part of an agricultural activity is derecognised on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of a biological asset that forms part of an agricultural activity is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

### 1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or for
- administrative purposes; or

### 1.6 Investment property (continued)

- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

**Cost model**

Subsequent to initial measurement investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

| **Item** | **Useful life** |
| --- | --- |
| Property - buildings | 30 years |
| Property - land | Indefinite |

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations.

The nature OR type of properties classified as held for strategic purposes.

The municipality discloses relevant information relating to assets under construction or development in the notes to the annual financial statements, which include: the cumulative expenditure recognised in the carrying value of investment property; the carrying value of investment property that is taking a significantly longer period of time to complete than expected; and the carrying value of investment property where construction or development has been halted (see note 9).

### 1.7 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

### 1.7 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Average/range of useful life |
|---|---|---|
| Buildings: | | |
| - Building improvements | Straight-line | 10 - 30 years |
| Community: | | |
| - Community facilities | Straight-line | 15 - 30 years |
| - Recreatonal facilities | Straight-line | 15 - 30 years |
| Other: | | |
| -Bins and containers | Straight line | 5 -15 years |
| - Computer equipment | Straight line | 5 - 10 years |
| - Emergency Equipment | Straight line | 5 - 10 years |
| - Furniture and Fittings | Straight line | 5 - 15 years |
| - Motor Vehicles | Straight line | 7 - 15 years |
| - Office Equipment | Straight line | 5 - 15 years |
| - Plant and Equipment | Straight line | 5 - 15 years |
| - Specialist Vehicles | Straight line | 10 - 20 years |
| - Other Assets | Straight line | 25 - 30 years |

## Accounting Policies

### 1.7 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

The municipality assesses at each reporting date whether there is any indication that the municipality's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the annual financial statements (see note 7).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.8 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. The municipality has classified Computer software as an intangible asset.

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

# Accounting Policies

### 1.8 Intangible assets (continued)

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are initially measured at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date. .

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses, which is line with the asset management policy of the municipality.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Amortisation is provided on a straight line basis over the expected useful lives of the intangible assets.

Amortisation is provided to write down the intangible assets, on a straight-line basis to their residual values, if any. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of intangible assets have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Computer software | Straight-line | 5 years |

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

### 1.9 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

**Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

When the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 11 - Heritage assets.

**Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

### 1.9 Heritage assets (continued)

**Subsequent measurement**

Subsequent to initial measurement, classes of heritage assets are carried at cost less any accumulated impairment losses.

**Impairment**

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

**Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

**Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

### 1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount is the higher of a cash-generating asset's or cash-generating unit's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

The municipality assesses and defines cash-generating assets as all assets held by the municipality with the primary objective to generate commercial return, and non-cash generating assets as those assets other than cash generating assets.

### 1.10 Impairment of cash-generating assets (continued)

**Designation**

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of non-cash-generating assets.

**Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

**Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

**Basis for estimates of future cash flows**

In measuring value in use, the municipality:
- bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- bases cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimates cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

# Accounting Policies

### 1.10 Impairment of cash-generating assets (continued)

**Composition of estimates of future cash flows**

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments, where applicable.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

**Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interes and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

**Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Accounting Policies

### 1.10 Impairment of cash-generating assets (continued)

**Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# Accounting Policies

### 1.10 Impairment of cash-generating assets (continued)

**Reversal of impairment loss**

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

**Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

### 1.11 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

**Designation**

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy.

**Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

## Accounting Policies

**1.11 Impairment of non-cash-generating assets (continued)**

**Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

**Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

**Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Reversal of an impairment loss**

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.12 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from the municipality's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

A residual interest is any contract that manifests an interest in the assets of the municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of the municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of the municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

### 1.12 Financial instruments (continued)

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

**Classification**

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Non-current investments | Financial asset measured at amortised cost |
| Receivables from Exchange and Non Exchange Transactions | Financial asset measured at amortised cost |
| Bank, Cash and Cash Equivalents - Call Deposits | Financial asset measured at amortised cost |
| Bank, Cash and Cash Equivalents - Bank | Financial asset measured at amortised cost |
| Bank, Cash and Cash Equivalents - Cash | Financial asset measured at amortised cost |

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Amortised Cost.

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Consumer deposits | Financial liability measured at amortised cost |
| Finance lease obligation | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Unspent conditional grants and receipts | Financial liability measured at amortised cost |

**Initial recognition**

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

### 1.12 Financial instruments (continued)

**Initial measurement of financial assets and financial liabilities**

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for financial instruments subsequently measured at fair value, which are measured at its fair value.

**Subsequent measurement of financial assets and financial liabilities**

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

**Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations.

Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

**Reclassification**

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the municipality reclassifies the instrument from cost to fair value.

**Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

**Impairment and uncollectibility of financial assets**

### 1.12 Financial instruments (continued)

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the financial assets. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

**Derecognition**

**Financial assets**

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the municipality adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipality recognises the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

### 1.12 Financial instruments (continued)

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

**Financial liabilities**

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

**Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

### 1.13 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

**Finance leases - lessor**

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

## Accounting Policies

**1.13 Leases (continued)**

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts is recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rents are expensed in the period in which they are incurred.

**1.14 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value or current replacement cost.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

# Accounting Policies

### 1.14 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.15 Consumer deposits

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to two months consumption of electricity and water services. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

### 1.16 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Service (SARS) for VAT on the payment, in accordance with Section 15(2) payment basis of the Value-added Tax Act (Act No. 89 of 1991).

### 1.17 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- the municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from the municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

**Post-employment benefits**

## Accounting Policies

### 1.17 Employee benefits (continued)

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

**Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

### 1.17 Employee benefits (continued)

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

### 1.17 Employee benefits (continued)

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

**Other long-term employee benefits**

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment Independent qualified actuaries carry out valuations of these obligations.
The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.

### 1.18 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

### 1.18 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficit.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:
- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

**Decommissioning, restoration and similar liability**

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on Impairment of assets as described in accounting policy 1.10 and 1.11.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.19 Accumulated surplus/(deficit)

The accumulated surplus/(deficit) represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/(deficit). Prior year adjustments, relating to income and expenditure, are credited/debited against accumulated surplus/(deficit) when retrospective adjustments are made.

### 1.20 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

### 1.20 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

**Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.21 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

### 1.21 Revenue from non-exchange transactions (continued)

**Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Revenue received from conditional grants, donations and other funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement, where applicable. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

**Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

**Transfers**

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

**Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

**Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### 1.22 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase of sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the event giving rise to the transfer has occurred.

## Accounting Policies

### 1.23 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.24 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.25 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the unauthorised expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 37 - Unauthorised expenditure.

### 1.26 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the fruitless and wasteful expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 39 - Fruitless and wasteful expenditure.

### 1.27 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998), or is in contravention of the municipality’s supply chain management policy.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the irregular expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on irregular expenditure, refer to note 38 - Irregular expenditure.

### 1.28 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

### 1.28 Commitments (continued)

Disclosures are made in respect of unrecognised contractual commitments, which include future capital commitments relating to property, plant and equipment, investment property, intangible assets and heritage assets, as applicable, operational commitments, as well as future commitments relating to operating leases. Refer to note 36 - Commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.29 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2019 to 30/06/2020.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

### 1.30 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that municipality's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances. Refer to note  - Related parties.

### 1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

### 1.31 Events after reporting date (continued)

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.32 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 46 - Comparative figures.

# Notes to the Annual Financial Statements



## 2. New standards and interpretations

### 2.1 Standards and interpretations issued, but not yet effective

The municipality had adopted all applicable standards and interpretations in the current year:

**GRAP 104 (amended): Financial Instruments**

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that:
(a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making;
(b) using fair value in certain instances was inappropriate; and
(c) some of the existing accounting requirements were seen as too rules based.

As a result, the IASB amended its existing Standards to deal with these issues. The IASB issued the IFRS Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to the IFRS Standard on Financial Instruments: Presentation (IAS 32) and the IFRS Standard on Financial Instruments: Disclosures (IFRS 7). The IPSASB issued revised IPSASs in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:
- financial guarantee contracts issued;
- loan commitments issued;
- classification of financial assets;
- amortised cost of financial assets;
- impairment of financial assets; and
- disclosures.

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

**Guideline on Accounting for Landfill Sites**

The Constitution of the Republic of South Africa, gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology and References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

**GRAP 20: Related Parties**

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

The objective of this Standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The Standard elaborates on the definitions and identification of:
- close member of the family of a person;
- management;
- related parties;
- remuneration; and
- significant influence.

The Standard sets out the requirements, inter alia, for the disclosure of:
- control;
- related party transactions; and
- remuneration of management.

The effective date of the standard is for years beginning on or after April 1, 2019.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

**GRAP 108: Statutory Receivables**

The objective of this Standard is to prescribe accounting requirements for statutory receivables.

Statutory receivables are receivables that:
(a) arise from legislation, supporting regulations, or similar means; and
(b) require settlement by another entity in cash or another financial asset.

It furthermore covers: Definitions, Recognition, Derecognition, Measurement, Presentation and disclosure, Transitional provisions, and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

**GRAP 109: Accounting by Principals and Agents**

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers: Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation and disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

**IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land**

This Interpretation applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

When an entity concludes that it controls the land after applying the principles in this Interpretation, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property, Property, Plant and Equipment, or Heritage Assets. As this Interpretation does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after April 1, 2019.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

### 2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2020 or later periods but are not relevant to its operations:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 1 (amended): Presentation of Financial Statements | April 1, 2020 | Unlikely there will be a material impact |
| • GRAP 38 - Disclosure of Interests in Other Entities | April 1, 2020 | Unlikely there will be a material impact |
| • GRAP 37 - Joint Arrangements | April 1, 2020 | Unlikely there will be a material impact |
| • GRAP 36 - Investments in Associates and Joint Ventures | April 1, 2020 | Unlikely there will be a material impact |
| • GRAP 35 - Consolidated Financial Statements | 01 April 2020 | Unlikely there will be a material impact |
| • GRAP 34 - Separate Financial Statements | 01 April 2020 | Unlikely there will be a material impact |

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Bank balances | 538,643 | 19,653,470 |
| Short-term deposits | 18,511,253 | 4,236,130 |
| | **19,049,896** | **23,889,600** |

### 3. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
| --- | --- | --- | --- | --- | --- | --- |
| | 30 June 2020 | 30 June 2019 | 30 June 2018 | June 30, 2020 | 30 June 2019 | 30 June 2018 |
| Call Account:- First National Bank - Richmond Branch, Richmond - Account number 613 5600 2695 | 950,724 | 11,167 | 530,991 | 950,724 | 11,167 | 530,991 |
| Housing Operating Account:- First National Bank - Richmond Branch, Richmond - Account number 621 3447 3280 | 643,011 | 556,527 | 310,982 | 643,011 | 556,527 | 310,982 |
| Financial Management Grant Account:- First National Bank - Richmond Branch, Richmond - Account number 622 4181 7537 | - | - | 1,900,000 | - | - | 1,900,000 |
| First National Bank - Richmond Branch, Richmond - Account number 628 1001 9217 | 2,127,328 | 2,020,442 | - | 2,127,328 | 2,020,442 | - |
| Municipal Infrastructure Grant Account:- First National Bank - Richmond Branch, Richmond - Account number 622 9962 9116 | 4,200,267 | 1,360 | 1,282 | 4,200,267 | 1,360 | 1,282 |
| First National Bank - Richmond Branch, Richmond - Account number 535 6532 2104 | 538,645 | 19,653,470 | 20,316,324 | 538,645 | 19,653,470 | 20,316,324 |
| Patheni Housing Account:- First National Bank - Richmond Branch, Richmond - Account number 621 1717 0407 | 172,661 | 174,397 | 206,266 | 172,661 | 174,397 | 206,266 |
| Siya Phase II Account:- First National Bank - Richmond Branch, Richmond - Account number 621 7617 4383 | 326,162 | 329,126 | 388,843 | 326,162 | 329,126 | 388,843 |
| Zwelethu Housing Account:- First National Bank - Richmond Branch, Richmond - Account number 621 5568 2844 | 384,022 | 387,838 | 458,591 | 384,022 | 387,838 | 458,591 |
| Call Account:- Nedbank - City Branch, Durban - Account number 03/7165013946/00028/29/30 | - | 755,273 | 10,225,415 | - | 755,273 | 10,225,415 |
| First National Bank - Richmond Branch, Richmond - Account number 628 3357 1385 | 9,705,320 | - | - | 9,705,320 | - | - |
| First National Bank - Richmond Branch, Richmond - Library Account number 628 3356 9900 | 1,758 | - | - | 1,758 | - | - |
| | **19,049,898** | **23,889,600** | **34,338,694** | **19,049,898** | **23,889,600** | **34,338,694** |

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 4 % to 7 % (2018: 4% to 7%) per annum

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

## 4. Receivables from exchange transactions

| | | |
|---|---|---|
| Consumer debtor - Refuse | 2,246,050 | 1,958,101 |
| Other receivables | 821,240 | 1,004,217 |
| Provision for impairment | (2,253,477) | (2,228,945) |
| | **813,813** | **733,373** |

| | | |
|---|---|---|
| **Gross balances** | | |
| Refuse | 2,246,050 | 1,958,101 |
| Other receivables | 821,240 | 1,004,217 |
| | **3,067,290** | **2,962,318** |

| | | |
|---|---|---|
| **Less: Provision for impairment** | | |
| Refuse | (1,724,185) | (1,427,631) |
| Other receivbles | (529,292) | (801,314) |
| | **(2,253,477)** | **(2,228,945)** |

| | | |
|---|---|---|
| **Net Balance** | | |
| Refuse | 521,865 | 530,470 |
| Other receivables | 291,948 | 202,903 |
| | **813,813** | **733,373** |

Other Receivables include outstanding debtors for various other services, e.g. Deposits, Interest, Rentals and Sundry Services like Dumping Fees, Impounding Fees, etc.

Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables.

The municipality receives applications that it processes. There are no consumers who represent more than 5% of the total balance of Receivables. The municipality did not pledge any of its Receivables as security for borrowing purposes.

**Receivables from exchange transaction**

**4.1. Ageing of receivables from exhange transactions**

| **As at 30 June 2020** | **Current** | | **Past Due** | | |
|---|---|---|---|---|---|
| **Refuse** | **0 - 30 days** | **31-60 days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
| Gross Balances | 153,969 | 93,133 | 91,231 | 1,907,717 | 2,246,050 |
| Subtotal | 153,969 | 93,133 | 91,231 | 1,907,717 | 2,246,050 |
| Less: Provision for impairment | - | - | - | (1,724,185) | (1,724,185) |
| **Net Balance** | **153,969** | **93,133** | **91,231** | **183,532** | **521,865** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

### 4. Receivables from exchange transactions (continued)

| **Other Receivables** | **0 - 30 days** | **31-60 days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
|---|---|---|---|---|---|
| Gross balances | 167,350 | 38,107 | 26,479 | 589,304 | 821,240 |
| Subtotal | 167,350 | 38,107 | 26,479 | 589,304 | 821,240 |
| Less: Provision for impairment | - | - | - | (529,292) | (529,292) |
| **Net Balance** | **167,350** | **38,107** | **26,479** | **60,012** | **291,948** |

| **As at 30 June 2019** | **Current** | | **Past Due** | | |
|---|---|---|---|---|---|
| **Refuse** | **0 - 30 days** | **31-60 days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
| Gross Balance | 125,976 | 94,334 | 84,860 | 1,652,931 | 1,958,101 |
| Subtotal | 125,976 | 94,334 | 84,860 | 1,652,931 | 1,958,101 |
| Less: Provision for impairment | - | - | - | (1,427,631) | (1,427,631) |
| **Net Balance** | **125,976** | **94,334** | **84,860** | **225,300** | **530,470** |

| **Other receivables** | **0 - 30 days** | **31-60 days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
|---|---|---|---|---|---|
| Gross Balance | 90,010 | 120,941 | 41,330 | 751,936 | 1,004,217 |
| Subtotal | 90,010 | 120,941 | 41,330 | 751,936 | 1,004,217 |
| Less: Provision for impairment | - | - | - | (801,313) | (801,313) |
| **Net Balance** | **90,010** | **120,941** | **41,330** | **(49,377)** | **202,904** |

**4.2. Summary of receivables from exchange transaction by customer classification:**

| **As at 30 June 2020** | **Current** | | **Past Due** | | |
|---|---|---|---|---|---|
| **Refuse** | **Residential / Household** | **Industrial / Commercial** | **National and Provincial Government** | **Other** | **Total** |
| 0 -30 Days | 96,633 | 53,150 | 3,292 | 895 | 153,970 |
| 31- 60 Days | 78,968 | 10,341 | 2,992 | 830 | 93,131 |
| 61 -90 Days | 78,080 | 9,777 | 2,566 | 808 | 91,231 |
| +90 Days | 1,617,326 | 177,959 | 97,159 | 15,274 | 1,907,718 |
| Subtotal | 1,871,007 | 251,227 | 106,009 | 17,807 | 2,246,050 |
| | **1,871,007** | **251,227** | **106,009** | **17,807** | **2,246,050** |

| **As at 30 June 2019** | **Current** | | **Past Due** | | |
|---|---|---|---|---|---|
| **Refuse** | **Residential / Household** | **Industrial / Commercial** | **National and Provincial Government** | **Other** | **Total** |
| 0 -30 Days | 100,772 | 22,377 | 2,074 | 753 | 125,976 |
| 31- 60 Days | 76,272 | 15,906 | 1,667 | 489 | 94,334 |
| 61 -90 Days | 72,440 | 10,487 | 1,654 | 279 | 84,860 |
| +90 Days | 1,413,565 | 179,471 | 50,502 | 9,393 | 1,652,931 |
| Subtotal | 1,663,049 | 228,241 | 55,897 | 10,914 | 1,958,101 |
| | **1,663,049** | **228,241** | **55,897** | **10,914** | **1,958,101** |

**Credit quality of trade and other receivables**

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates:

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
| --- | --- | --- |

### 4. Receivables from exchange transactions (continued)

None of the financial assets that are fully performing have been renegotiated in the last year.

**Fair value of trade and other receivables**

**Reconciliation of impairment of trade and other receivables**

| | | |
| --- | --- | --- |
| Opening balance | (2,228,945) | (603,080) |
| Impairment allowance / Reversal | (24,532) | (1,625,865) |
| | **(2,253,477)** | **(2,228,945)** |

The municipality does not hold any collateral as security.

### 5. Receivables from non-exchange transaction

| | | |
| --- | --- | --- |
| Fines | 726,600 | 222,400 |
| Accrued Income | - | 137,510 |
| Sundry Debtors | 1,301,242 | 304,149 |
| Assesment rates debtors | 25,134,165 | 16,625,304 |
| | **27,162,007** | **17,289,363** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

## 5. Receivables from non-exchange transaction (continued)

**Receivables from non-exchange transaction pledged as security**

No receivables from non-exchange transactions were pledged as security.

**Receivables from non-exchange transaction**

**5.1 Ageing of receivables from non-exchange transactions**

| As at 30 June 2020 | Current | Past Due | | | |
|---|---|---|---|---|---|
| **Assessment Rates** | **0 -30 Days** | **31- 60 Days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
| | - | - | - | - | - |
| Gross Balance | 751,405 | 848,401 | 1,671,789 | 38,077,270 | 41,348,865 |
| Subtotal | 751,405 | 848,401 | 1,671,789 | 38,077,270 | 41,348,865 |
| Less Provision for impairment | - | - | - | (16,214,700) | (16,214,700) |
| | **751,405** | **848,401** | **1,671,789** | **21,862,570** | **25,134,165** |

| **Accrued Income** | **0 -30 Days** | **31- 60 Days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
|---|---|---|---|---|---|
| Gross Balance | - | - | - | 137,510 | 137,510 |
| Subtotal | - | - | - | 137,510 | 137,510 |
| Less Provision for impairment | - | - | - | (137,510) | (137,510) |
| | **-** | **-** | **-** | **-** | **-** |

| **Trafic Fines** | **0 -30 Days** | **31- 60 Days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
|---|---|---|---|---|---|
| Gross Balance | 17,600 | 113,700 | 142,300 | 458,600 | 732,200 |
| Subtotal | 17,600 | 113,700 | 142,300 | 458,600 | 732,200 |
| Less Provision for impairment | - | - | - | (6,200) | (6,200) |
| | **17,600** | **113,700** | **142,300** | **452,400** | **726,000** |

| **Sundry Debtors** | **0 -30 Days** | **31- 60 Days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
|---|---|---|---|---|---|
| Gross Balance | - | - | - | 1,309,822 | 1,309,822 |
| Subtotal | - | - | - | 1,309,822 | 1,309,822 |
| | **-** | **-** | **-** | **1,309,822** | **1,309,822** |

| As at 30 June 2019 | Current | Past Due | | | |
|---|---|---|---|---|---|
| **Assessment Rates** | **0 - 30 days** | **31-60 days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
| Gross Balance | 621,073 | 2,153,470 | 1,384,878 | 24,582,515 | 28,741,936 |
| Subtotal | 621,073 | 2,153,470 | 1,384,878 | 24,582,515 | 28,741,936 |
| Less: Provision for impairment | - | - | - | (12,116,632) | (12,116,632) |
| | **621,073** | **2,153,470** | **1,384,878** | **12,465,883** | **16,625,304** |

| **Accrued Income** | **0 - 30 days** | **31-60 days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
|---|---|---|---|---|---|
| Gross Balance | - | - | - | 137,510 | 137,510 |
| Subtotal | - | - | - | 137,510 | 137,510 |
| | **-** | **-** | **-** | **137,510** | **137,510** |

| **Sundry Debtors** | **0 - 30 days** | **31-60 days** | **61 - 90 Days** | **+ 90 Days** | **Total** |
|---|---|---|---|---|---|
| Gross Balance | - | - | - | 682,026 | 682,026 |

# Notes to the Annual Financial Statements



## 5. Receivables from non-exchange transaction (continued)

| | | | | | |
|---|---|---|---|---|---|
| Subtotal | - | - | - | 682,026 | 682,026 |
| Less: Provision for impairment | - | - | - | (377,877) | (377,877) |
| | **-** | **-** | **-** | **304,149** | **304,149** |

| Traffic Fines | 0 - 30 days | 31-60 days | 61 - 90 Days | + 90 Days | Total |
|---|---|---|---|---|---|
| Gross Balance | 12,000 | 50,000 | 47,300 | 138,450 | 247,750 |
| Subtotal | 12,000 | 50,000 | 47,300 | 138,450 | 247,750 |
| Less: Provision for impairment | - | - | - | (25,350) | (25,350) |
| | **12,000** | **50,000** | **47,300** | **113,100** | **222,400** |

**5.2 Summary of assessment rates debtors customer classification:**

| As at 30 June 2020 | Residential / Household | Industrial / Commercial | National and Provincial Government | Other | Total |
|---|---|---|---|---|---|
| Current: | - | - | - | - | - |
| 0 -30 Days | 288,976 | 111,000 | 133,908 | 217,521 | 751,405 |
| Past Due: | - | - | - | - | - |
| 31- 60 Days | 306,518 | 86,396 | 218,391 | 237,096 | 848,401 |
| 61 -90 Days | 345,392 | 114,978 | 928,207 | 283,211 | 1,671,788 |
| +90 Days | 9,208,656 | 1,545,573 | 21,258,225 | 6,064,816 | 38,077,270 |
| Gross Balances | 10,149,542 | 1,857,947 | 22,538,731 | 6,802,644 | 41,348,864 |
| | **10,149,542** | **1,857,947** | **22,538,731** | **6,802,644** | **41,348,864** |

| As at 30 June 2019 | Residential / Household | Industrial / Commercial | National and Provincial Government | Other | Total |
|---|---|---|---|---|---|
| 0 -30 Days | 294,850 | 305,393 | 148,645 | - | 748,888 |
| 31- 60 Days | 370,623 | 114,352 | 1,412,180 | 256,315 | 2,153,470 |
| 61 -90 Days | 299,600 | 77,086 | 810,902 | 197,291 | 1,384,879 |
| +90 Days | 6,967,653 | 1,516,916 | 12,962,975 | 3,007,155 | 24,454,699 |
| Gross Balances | 7,932,726 | 2,013,747 | 15,334,702 | 3,460,761 | 28,741,936 |
| | **7,932,726** | **2,013,747** | **15,334,702** | **3,460,761** | **28,741,936** |

**Fair value of receivables from non exchange transactions**

**Reconciliation of provision for impairment of receivables from non exchange transactions**

| | 2020 | 2019 |
|---|---|---|
| Opening balance | (12,494,510) | (10,432,332) |
| Impairment allowance | (4,737,066) | (2,062,178) |
| | **(17,231,576)** | **(12,494,510)** |

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date.

The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment. No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable.

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

### 6. VAT receivable

| | | |
|---|---|---|
| VAT | 2,872,800 | 3,279,496 |

Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

### 7. Property, plant and equipment

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation and accumulated impairment | Carrying value | Cost | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 67,380,834 | - | 67,380,834 | 67,380,834 | - | 67,380,834 |
| Buildings | 38,365,849 | (14,739,535) | 23,626,314 | 33,705,669 | (13,549,938) | 20,155,731 |
| Leased assets | 682,982 | (265,605) | 417,377 | 682,982 | (37,944) | 645,038 |
| Plant and machinery | 6,640,582 | (4,327,345) | 2,313,237 | 4,609,112 | (4,238,409) | 370,703 |
| Furniture and fixtures | 1,966,798 | (1,353,453) | 613,345 | 1,742,581 | (1,217,761) | 524,820 |
| Motor vehicles | 14,775,574 | (4,818,371) | 9,957,203 | 14,660,460 | (3,519,029) | 11,141,431 |
| Office equipment | 5,088,942 | (2,955,687) | 2,133,255 | 4,126,303 | (3,037,010) | 1,089,293 |
| Infrastructure | 296,282,682 | (125,277,946) | 171,004,736 | 286,199,595 | (114,674,327) | 171,525,268 |
| Community | 56,030,103 | (24,326,335) | 31,703,768 | 55,679,765 | (21,545,542) | 34,134,223 |
| Work in progress- Roads | 10,486,995 | - | 10,486,995 | 10,640,784 | - | 10,640,784 |
| Work in progress- Buildings | 10,383,933 | - | 10,383,933 | 13,528,541 | - | 13,528,541 |
| Work in progress - Community | 10,572,616 | - | 10,572,616 | 7,944,769 | - | 7,944,769 |
| **Total** | **518,657,890** | **(178,064,277)** | **340,593,613** | **500,901,395** | **(161,819,960)** | **339,081,435** |

### 7. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2020**

| | Opening balance | Additions | Disposals | Transfers Out | Transfers received | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|
| Land | 67,380,834 | - | - | - | - | - | - | 67,380,834 |
| Buildings | 20,155,731 | 60,621 | (151,505) | - | 4,751,064 | (1,163,486) | (26,111) | 23,626,314 |
| Leased Assets | 645,038 | - | - | - | - | (227,661) | - | 417,377 |
| Plant and machinery | 370,703 | 2,031,504 | (35) | - | - | (88,935) | - | 2,313,237 |
| Furniture and fixtures | 524,820 | 228,379 | (4,162) | - | - | (134,830) | (862) | 613,345 |
| Motor vehicles | 11,141,431 | 320,150 | - | - | - | (1,507,081) | 2,703 | 9,957,203 |
| Office equipment | 1,089,293 | 1,006,862 | (44,223) | - | - | 90,144 | (8,821) | 2,133,255 |
| Infrastructure | 171,525,268 | 50,000 | - | - | 10,033,087 | (10,520,608) | (83,011) | 171,004,736 |
| Community | 34,134,223 | 372,923 | (22,585) | - | - | (2,736,382) | (44,411) | 31,703,768 |
| Assets under construction- Roads | 10,640,784 | 9,879,298 | - | (10,033,087) | - | - | - | 10,486,995 |
| Assets under construction- Buildings | 13,528,541 | 1,606,456 | - | (4,751,064) | - | - | - | 10,383,933 |
| Assets under construction- Community assets | 7,944,769 | 2,627,847 | - | - | - | - | - | 10,572,616 |
| | **339,081,435** | **18,184,040** | **(222,510)** | **(14,784,151)** | **14,784,151** | **(16,288,839)** | **(160,513)** | **340,593,613** |

### 7. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2019**

| | Opening balance | Adjustment to Opening Balance | Additions | Disposals | Transfers received | Transfers Out | Depreciation | Impairment loss | Write-off | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Land | 67,380,834 | - | - | - | - | - | - | - | - | 67,380,834 |
| Buildings | 19,536,512 | 29,636 | - | - | 1,564,721 | - | (907,285) | (67,853) | - | 20,155,731 |
| Leased Assets | 1,452 | - | 682,983 | (1,453) | - | - | (37,944) | - | - | 645,038 |
| Plant and machinery | 540,614 | 55,330 | 130,115 | - | - | - | (140,218) | (9,613) | (205,525) | 370,703 |
| Furniture and fixtures | 739,005 | 1,282 | 70,657 | - | - | - | (162,382) | (6,010) | (117,732) | 524,820 |
| Motor vehicles | 10,732,274 | 36,663 | 1,059,905 | - | - | - | (687,411) | - | - | 11,141,431 |
| Office equipment | 1,764,890 | 24,241 | 474,716 | - | - | - | (602,558) | (908) | (571,088) | 1,089,293 |
| Infrastructure | 175,755,696 | - | - | - | 7,885,274 | - | (12,072,754) | (42,948) | - | 171,525,268 |
| Community | 37,152,395 | - | - | - | - | - | (2,949,948) | (68,224) | - | 34,134,223 |
| Assets under construction-Roads | 7,661,541 | 666,088 | 10,198,429 | - | - | (7,885,274) | - | - | - | 10,640,784 |
| Assets under construction-Buildings | 5,099,818 | 319,669 | 9,673,775 | - | - | (1,564,721) | - | - | - | 13,528,541 |
| Assets under construction-Community | 6,557,620 | (985,758) | 2,372,907 | - | - | - | - | - | - | 7,944,769 |
| | **332,922,651** | **147,151** | **24,663,487** | **(1,453)** | **9,449,995** | **(9,449,995)** | **(17,560,500)** | **(195,556)** | **(894,345)** | **339,081,435** |

**Reconciliation of Work-in-Progress 2020**

| | Included within Infrastructure | Included within Community | Included within Buildings | Total |
|---|---|---|---|---|
| Opening balance | 10,640,784 | 7,944,769 | 13,528,541 | 32,114,094 |
| Additions/capital expenditure | 9,879,298 | 2,627,847 | 1,606,456 | 14,113,601 |
| Transferred to completed items | (10,033,087) | - | (4,751,064) | (14,784,151) |
| | **10,486,995** | **10,572,616** | **10,383,933** | **31,443,544** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
| --- | --- | --- |

**7. Property, plant and equipment (continued)**

**Reconciliation of Work-in-Progress 2019**

| | Included within Infrastructure | Included within Community | Included within Buildings | Total |
| --- | --- | --- | --- | --- |
| Opening balance | 7,661,541 | 6,557,620 | 5,099,818 | 19,318,979 |
| Adjustment to Opening Balance | 666,088 | (985,757) | 319,669 | - |
| Additions/capital expenditure | 10,198,429 | 2,372,906 | 9,673,775 | 22,245,110 |
| Transferred to completed items | (7,885,274) | - | (1,564,721) | (9,449,995) |
| | **10,640,784** | **7,944,769** | **13,528,541** | **32,114,094** |

**Expenditure incurred to repair and maintain property, plant and equipment**

| **Expenditure incurred to repair and maintain property, plant and equipment included in statement of financial performance** | | |
| --- | --- | --- |
| Building and facilities | 95,391 | 62,087 |
| Equipment | 1,707,767 | 2,513,025 |
| Infrastructure | 3,310,514 | 1,806,180 |
| | **5,113,672** | **4,381,292** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

## 8. Intangible assets

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 2,019,692 | (1,081,520) | 938,172 | 1,742,501 | (1,081,652) | 660,849 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
| --- | --- | --- |

**8. Intangible assets (continued)**

**Reconciliation of intangible assets - 2020**

| | Opening balance | Additions | Amortisation | Total |
| --- | --- | --- | --- | --- |
| Computer software | 660,849 | 372,272 | (94,949) | 938,172 |

**Reconciliation of intangible assets - 2019**

| | Opening balance | Amortisation | Total |
| --- | --- | --- | --- |
| Computer software | 1,079,176 | (418,327) | 660,849 |

**Pledged as security**

No Intangible assets are pledged as security.

**9. Investment property**

| | 2020 | | | 2019 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 1,185,899 | - | 1,185,899 | 1,185,899 | - | 1,185,899 |

**Reconciliation of investment property - 2020**

| | Opening balance | Total |
| --- | --- | --- |
| Investment property | 1,185,899 | 1,185,899 |

**Reconciliation of investment property - 2019**

| | Opening balance | Total |
| --- | --- | --- |
| Investment property | 1,185,899 | 1,185,899 |

**Pledged as security**

All of the municipality's investment property is held under a freehold interests and no Investment property is pledged as security. The Investment Property is Land held to earn rentals.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
| --- | --- | --- |

## 10. Biological assets

| | 2020 | | | 2019 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Plantations | 3,389,506 | - | 3,389,506 | 13,759,506 | - | 13,759,506 |

# Notes to the Annual Financial Statements



**10. Biological assets (continued)**

**Reconciliation of biological assets - 2020**

| | Opening balance | Gains or losses arising from changes in fair value | Total |
|---|---|---|---|
| Plantations | 13,759,506 | (10,370,000) | 3,389,506 |

**Biological asset (plantation) - fair value adjustment**

The biological assets are held by the municipality and measured using the fair value model. The biological assets were revalued during the current financial year by an independent valuer. It was discovered that the biological assets were illegally harvested and later destroyed by fire in the financial year ended 2019/2020. This resulted in a change in fair value less costs to sell relating to the biological assets. A fair value loss of **R 10 370 000** was thus recognised.

The value of the biological asset (plantation) was determined by using the "Faustmann Formula. The Faustmann Formula was used to arrive at values for the plantations at any age between establishment and maturity. This formula is a widely accepted method of valuing timber plantations in South Africa. "

*The Faustmann Formula properly used and applied affords the most accurate starting point in placing a valuation on the standing trees as they were before the fire."*

The market related prices were applied to the costs of the timber (delivered prices, harvesting, loading, short-haul and long-haul costs), to arrive at the Net Standing Value per age class.

**Reconciliation of biological assets - 2019**

| | Opening balance | Gains or losses arising from changes in fair value | Total |
|---|---|---|---|
| Plantations | 12,883,735 | 925,771 | 13,759,506 |

# Notes to the Annual Financial Statements

Figures in Rand

### 11. Heritage assets

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Cultural buildings | 212,767 | - | 212,767 | 212,767 | - | 212,767 |

**Reconciliation of heritage assets 2020**

| | Opening balance | Total |
|---|---|---|
| Cultural buildings | 212,767 | 212,767 |

**Reconciliation of heritage assets 2019**

| | Opening balance | Total |
|---|---|---|
| Cultural buildings | 212,767 | 212,767 |

### 12. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 7,253,808 | 7,197,366 |
| Bonus accrual | 1,576,734 | 1,294,217 |
| Retentions | 4,410,274 | 4,015,615 |
| | **13,240,816** | **12,507,198** |

### 13. Payables from non-exchange transactions

| | | |
|---|---|---|
| Payments received in advanced | 2,865,021 | 793,472 |
| Unallocated Receipt | 173,723 | 108,226 |
| | **3,038,744** | **901,698** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
| --- | --- | --- |

### 14. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | |
| --- | --- | --- |
| **Unspent conditional grants and receipts** | | |
| MIG Unspent Grant | 1,233,940 | - |
| INEP Grant | - | 2,760,599 |
| CoGTA Grant | 8,507,875 | 1,516,375 |
| Human Settlement Grant | 3,774,955 | 3,612,619 |
| Library Grant | 511,130 | 488,635 |
| UDM Grant | 47,820 | 47,820 |
| Disaster Management Grant | 194,467 | - |
| Scheme support Programme Grant | 500,000 | - |
| | **14,770,187** | **8,426,048** |

See note 25 for reconciliation of grants from National/Provincial Government.

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.
The Unspent Grants are cash backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised.

These amounts are invested in a ring-fenced investment until utilised.

### 15. Operating lease liability

| | | |
| --- | --- | --- |
| Current liabilities | (509,753) | (478,884) |

### 16. Finance lease obligation

| | | |
| --- | --- | --- |
| **Minimum lease payments due** | | |
| - within one year | 254,983 | 254,983 |
| - in second to third year inclusive | 212,485 | 467,468 |
| | 467,468 | 722,451 |
| less: future finance charges | (39,315) | (92,407) |
| **Present value of minimum lease payments** | **428,153** | **630,044** |

| | | |
| --- | --- | --- |
| **Present value of minimum lease payments due** | | |
| - within one year | 223,585 | 201,891 |
| - in second to third year inclusive | 204,568 | 428,153 |
| | **428,153** | **630,044** |

| | | |
| --- | --- | --- |
| Non-current liabilities | 204,568 | 428,153 |
| Current liabilities | 223,585 | 201,891 |
| | **428,153** | **630,044** |

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 7.

The municipality leased multiple photocopying machine in May 2019 for a period of 3 years which will expire in March 2021. Lease instalments are payable monthly at the begining of the month. Interest rate was charged at 10,25% per annum. No restrictions are imposed by lease arrangements. The lease agreements do not provide for contingent lease payments.

## Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
| --- | --- | --- |

### 17. Employee benefit obligations

**The amounts recognised in the statement of financial position are as follows:**

| | | |
| --- | --- | --- |
| **Carrying value** | | |
| Post-Retirement Medical obligation | (5,695,000) | (8,901,565) |
| Long Service Awards | (2,268,000) | (2,320,727) |
| | **(7,963,000)** | **(11,222,292)** |

| | | |
| --- | --- | --- |
| Non-current liabilities | (7,412,000) | (10,938,008) |
| Current liabilities | (551,000) | (284,284) |
| | **(7,963,000)** | **(11,222,292)** |

**Defined benefit plan**

**Post-retirement health care benefits liability**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by ARCH Actuarial Consulting fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

**Changes in the present value of the defined benefit obligation are as follows:**

| | | |
| --- | --- | --- |
| Opening balance | 8,580,895 | 8,893,849 |
| Net expense recognised in the statement of financial performance | (3,206,565) | (312,954) |
| | **5,374,330** | **8,580,895** |

**Net expense recognised in the statement of financial performance**

| | | |
| --- | --- | --- |
| Current service cost | 754,800 | 708,298 |
| Benifits paid | (193,178) | (139,486) |
| Interest cost | 992,183 | 943,297 |
| Actuarial (gains) losses | (4,760,370) | (1,825,063) |
| | **(3,206,565)** | **(312,954)** |

**Calculation of actuarial gains and losses**

| | | |
| --- | --- | --- |
| Actuarial (gains) losses – Obligation | (4,760,370) | (1,825,063) |

### 17. Employee benefit obligations (continued)

**Key assumptions used**

The following summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year. The next contribution rate increase is assumed to occur at 1 January 2021.

**Assumptions used at the reporting date:**

| | 2020 | 2019 |
|---|---|---|
| Discount rates used | 10.58 % | 11.25 % |
| Health Care Cost Inflation Rate | 6.61 % | 8.57 % |
| Net Effective Discount Rate | 3.72 % | 2.47 % |

Key Demographic Assumptions

| **Assumption** | **Value** |
|---|---|
| Average retirement age | 62 |
| Continuation of membership at retirement | 75% |
| Proportion with a spouse dependant at retirement | 60% |
| Proportion of in-service non-members joining a scheme by retirement and continuing with the subsidy thereafter | 15% |
| Mortality during employment | SA 85-90 |

**History of Liabilities, Assets and Experience Adjustments**

The accrued liabilities and the plan assets for the current period and the previous four periods are:

| | 2020<br>R | 2019<br>R | 2018<br>R | 2017<br>R | 2016<br>R |
|---|---|---|---|---|---|
| Defined benefit obligation | (5,695,000) | (8,902,000) | (8,894,000) | (9,482,000) | (8,985,000) |
| Plan assets | - | - | - | - | - |
| Surplus (deficit) | (5,695,000) | (8,902,000) | (8,894,000) | (9,482,000) | (8,985,000) |

**Other long-term employee benefits**

**Long Services Award**

Employee benefit obligation relates to long service award extended to municipal staff who served on the payroll of the municipality for each five year interval completed as an employee. The most recent actuarial valuations of present value of the defined benefit obligation were carried out as at 30 June 2020 by an Independant valuer, One Pangaea Expertise & Solutions, an expert who is a member of the Actuarial society of South Africa. The present value of the defined benefit obligation and the related current cost and past service costs, were measured using the projected Unit Credit Method. The approach taken in this valuation has been made with reference to the guidelines issued by the Actuarial Society of South Africa (ASSA), in particular, the Advisory Practice Note 207 as issued by ASSA, and is consistent with the requirements of GRAP25. The municipality is under no obligation to cover any unfunded benefits.

**Changes in the present value of the defined benefit obligation are as follows:**

| | 2020 | 2019 |
|---|---|---|
| Opening balance | 2,320,727 | 2,292,217 |
| Net expense recognised in the statement of financial performance | (52,727) | 28,510 |
| | **2,268,000** | **2,320,727** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
| --- | --- | --- |

**17. Employee benefit obligations (continued)**

**Net expense recognised in the statement of financial performance**

| | | |
| --- | --- | --- |
| Current service cost | 269,976 | - |
| Benifits paid | (146,138) | - |
| Interest cost | 193,972 | - |
| Actuarial (gains) losses | (370,537) | 28,510 |
| | **(52,727)** | **28,510** |

| | | |
| --- | --- | --- |
| **Calculation of actuarial gains and losses** | | |
| Actuarial (gains) losses – Obligation | (370,537) | 28,510 |

**Key Demographic Assumptions**

| Assumptions | Value |
| --- | --- |
| Average retirement age | 62 |
| Mortality during employment | SA 85-90 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

### 17. Employee benefit obligations (continued)

**History of Liabilities, Assets and Experience Adjustments**

| **Liability history** | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| Accrued liability | (2,268,000) | (2,321,000) | (2,292,000) | (1,885,000) | (1,682,000) |
| Fair value of plan asset | - | - | - | - | - |
| **Surplus / (Deficit)** | **(2,268,000)** | **(2,321,000)** | **(2,292,000)** | **(1,885,000)** | **(1,682,000)** |

| | | |
|---|---|---|
| Discount rate | 7.66 % | 8.58 % |
| General earnings inflation rate (long-term) | 4.16 % | 5.70 % |
| Net discount rate | 3.36 % | 2.72 % |
| | - | - |

### 18. Provisions

**Reconciliation of provisions - 2020**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Leave provision | 3,597,865 | 1,078,862 | 4,676,727 |
| Rehabilitation of Land-fill sites | 6,716,160 | 935,484 | 7,651,644 |
| | **10,314,025** | **2,014,346** | **12,328,371** |

**Reconciliation of provisions - 2019**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Leave Provision | 3,427,255 | 170,610 | 3,597,865 |
| Rehabilitation of Land-fill sites | 6,196,053 | 520,107 | 6,716,160 |
| | **9,623,308** | **690,717** | **10,314,025** |

| | | |
|---|---|---|
| Non-current liabilities | 7,651,644 | 6,716,160 |
| Current liabilities | 4,676,727 | 3,597,865 |
| | **12,328,371** | **10,314,025** |

**Environmental rehabilitation provision**

In terms of the licencing of the landfill refuse site, the municipality will incur licensing and rehabilitation costs of R7 651 644 (2019: R 6 716 160 to restore the sites at the end of its useful life.. Provision has been made for the net present value of the future cost, using the average cost of borrowing interest rate.

### 19. Service charges

| | | |
|---|---|---|
| Refuse removal | 618,462 | 1,046,465 |

### 20. Rental of facilities and equipment

| | | |
|---|---|---|
| **Premises** | | |
| Rental of facilities and equipment | 715,418 | 1,085,809 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

## 21. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Bank | 147,210 | 154,663 |
| Short term deposits | 1,658,606 | 2,374,276 |
| | **1,805,816** | **2,528,939** |

## 22. Other income

| | | |
|---|---|---|
| SETA Refunds | 79,509 | 68,641 |
| Cementary fees | 106,421 | 55,621 |
| Prints | 2,801 | 5,155 |
| Tender documents | 163,503 | 143,047 |
| Town planning | 627 | 376 |
| Building plan fees | 69,337 | 69,130 |
| Sundry income | 196,818 | 83,140 |
| | **619,016** | **425,110** |

## 23. Property rates

**Rates received**

| | | |
|---|---|---|
| Residential | 11,249,273 | 11,176,980 |
| Commercial | 6,645,304 | 6,038,862 |
| | 17,894,577 | 17,215,842 |
| Property rates - penalties imposed | 3,488,475 | 3,020,026 |
| | **21,383,052** | **20,235,868** |

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2017.

Interim valuations are processed annually to take into account changes in individual property values due to alterations and subdivisions

## 24. Licences and permits (non-exchange)

| | | |
|---|---|---|
| Business licences | 421,990 | 414,645 |
| Other licences | - | 26,590 |
| Learners licences | 82,132 | 88,000 |
| | **504,122** | **529,235** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

## 25. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 69,731,868 | 62,473,000 |
| EPWP grant | 1,716,000 | 1,515,000 |
| FMG | 1,900,000 | 1,900,000 |
| Library grant | 2,828,504 | 2,312,676 |
| Disaster Management Grant | 550,533 | - |
| | **76,726,905** | **68,200,676** |
| **Capital grants** | | |
| Small town | 3,008,499 | 2,711,722 |
| National MIG grants | 13,808,056 | 18,149,000 |
| | **16,816,555** | **20,860,722** |
| | **93,543,460** | **89,061,398** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | | |
|---|---|---|
| Conditional grants received | 24,136,750 | 26,588,398 |
| Unconditional grants received | 69,731,868 | 62,473,000 |
| | **93,868,618** | **89,061,398** |

**National Equitable Share**

| | | |
|---|---|---|
| Current-year receipts | 69,731,868 | 62,473,000 |
| Conditions met - transferred to revenue | (69,731,868) | (62,473,000) |
| | - | - |

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy based on the monthly billing, towards the onsumer account, which subsidy is determined annually by council. Indigent residential households receive basic refuse emoval and 50 kWh electricity free every month.

**EPWP Grants**

| | | |
|---|---|---|
| Current-year receipts | 1,716,000 | 1,515,000 |
| Conditions met - transferred to revenue | (1,716,000) | (1,515,000) |
| | - | - |

The Expanded Public Works Programme Grant was allocated to the municipality for environmental projects whereby temporary work opportunities are expanded. No funds have been withheld.

**FMG grant**

| | | |
|---|---|---|
| Current-year receipts | 1,900,000 | 1,900,000 |
| Conditions met - transferred to revenue | (1,900,000) | (1,900,000) |
| | - | - |

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

**MIG**

## Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

### 25. Government grants and subsidies (continued)

| | | |
|---|---|---|
| Current-year receipts | 15,042,000 | 18,149,000 |
| Conditions met - transferred to revenue | (13,808,060) | (18,149,000) |
| | **1,233,940** | **-** |

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, sports fields and community halls as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No funds have been withheld.

**Department Minerals and Energy Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 2,760,599 | - |
| Current-year receipts | - | 10,500,000 |
| Conditions met | - | (7,739,401) |
| Other - Repayment of Grant | (2,760,599) | - |
| | **-** | **2,760,599** |

Conditions still to be met - remain liabilities (see note 14 - Unspent conditional grants and receipts).

Expenses were incurred for the electricification of households in the community.

**Department Cooperative Government and Trading Affairs (CoGTA) Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1,516,375 | 2,228,096 |
| Current-year receipts | 10,000,000 | 2,000,000 |
| Conditions met - transferred to revenue | (3,008,500) | (2,711,721) |
| | **8,507,875** | **1,516,375** |

Conditions still to be met - remain liabilities (see note 14 - Unspent conditional grants and receipts).

This grant was allocated for the funding of various projects e.g. Retail Market Facility, CBD Stormwater and Street Rehabilitation, Traffic Lights and Drivers' Testing Centre. No funds have been withheld.

**Department Human Settlement Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 3,612,619 | 1,910,454 |
| Current-year receipts | - | 2,000,000 |
| Conditions met - transferred to revenue | - | (351,986) |
| Interest capitalized | 162,336 | 54,151 |
| | **3,774,955** | **3,612,619** |

Conditions still to be met - remain liabilities (see note 14 - Unspent conditional grants and receipts).

**Library Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 488,635 | 84,218 |
| Current-year receipts | 2,851,000 | 2,711,000 |
| Conditions met - transferred to revenue | (2,828,505) | (2,312,676) |
| Other | - | 6,093 |
| | **511,130** | **488,635** |

Conditions still to be met - remain liabilities (see note 14 - Unspent conditional grants and receipts).

This grant was allocated for the funding of various housing projects to assist the indigent communities. No funds have been withheld.

## Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
| --- | --- | --- |

### 25. Government grants and subsidies (continued)

**Umgungundlovu District Municipality Grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 47,820 | 47,820 |

Conditions still to be met - remain liabilities (see note 14 - Unspent conditional grants and receipts).

This grant was allocated to the municipality as a contribution towards the clearing of vacant land and plots. No funds have been
withheld.

**Disaster Management Grant**

| | | |
| --- | --- | --- |
| Current-year receipts | 745,000 | - |
| Conditions met - transferred to revenue | (550,533) | - |
| | **194,467** | **-** |

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

**Scheme support Programme Grant**

| | | |
| --- | --- | --- |
| Current-year receipts | 500,000 | - |

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

### 26. Fines, penalties and forfeits

| | | |
| --- | --- | --- |
| Law Enforcement Fines | 36,500 | - |
| Pound Fees Fines | 16,859 | 3,850 |
| Municipal Traffic Fines | 518,600 | 247,750 |
| | **571,959** | **251,600** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

### 27. Employee related costs

| | | |
|---|---|---|
| Basic | 34,372,823 | 29,669,401 |
| Bonus | 2,202,227 | 2,028,567 |
| Current service costs | 754,800 | 708,298 |
| Unemployment Insurance (UIF) | 319,158 | 223,349 |
| Skills Development Fund Levy (SDL) | 408,189 | 372,040 |
| Leave pay provision charge | 2,086,434 | 1,471,088 |
| Danger allowance | 42,336 | 42,000 |
| Travel, motor car, accommodation, subsistence and other allowances | 1,402,504 | 1,214,193 |
| Overtime payments | 1,606,217 | 481,759 |
| Long-service awards | - | 467,928 |
| Housing benefits and allowances | 103,603 | 83,588 |
| Celluar and Telephone | 422,540 | 266,380 |
| Bargining Council | 18,755 | 16,408 |
| Medical aid contribution | 2,761,816 | 2,259,669 |
| Pension | 4,738,872 | 3,654,027 |
| | **51,240,274** | **42,958,695** |

**Remuneration of Municipal manager**

| | | |
|---|---|---|
| Annual Remuneration | 504,747 | 930,346 |
| Allowances | 147,120 | 152,000 |
| Contributions to UIF, Medical and Pension Funds | 1,653 | 20,199 |
| Lump sum payout | 382,318 | - |
| | **1,035,838** | **1,102,545** |

The Municipal Manager (Mrs A B Mnikathi) resigned in December 2019 and received a final settlement payout in March 2020..

**Remuneration of Chief Financial Officer**

| | | |
|---|---|---|
| Annual Remuneration | 1,072,662 | 944,224 |
| Allowances | 158,000 | 132,000 |
| Bonuses | - | 74,485 |
| Contributions to UIF, Medical and Pension Funds | 2,045 | 28,757 |
| Leave payout | 274,463 | - |
| | **1,507,170** | **1,179,466** |

**Remuneration of Strategic Manager : community services**

| | | |
|---|---|---|
| Annual Remuneration | 935,176 | 843,599 |
| Allowances | 156,000 | 192,000 |
| Contributions to UIF, Medical and Pension Funds | 92,890 | 102,019 |
| | **1,184,066** | **1,137,618** |

**Remuneration of Strategic manager : Corporate services**

| | | |
|---|---|---|
| Annual Remuneration | 819,155 | 844,979 |
| Allowances | 156,000 | - |
| Bonuses | 77,215 | 104,191 |
| Contributions to UIF, Medical and Pension Funds | 72,136 | 92,700 |
| Acting Allowance | 197,806 | - |
| Travel allowance | - | 192,000 |
| | **1,322,312** | **1,233,870** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

### 27. Employee related costs (continued)

**Remuneration of strategic manager : Technical services**

| | | |
|---|---|---|
| Annual Remuneration | - | 710,263 |
| 205 | - | 238,333 |
| Contributions to UIF, Medical and Pension Funds | - | 1,724 |
| Bonus | - | 30,609 |
| Leave payout | - | 224,185 |
| | **-** | **1,205,114** |

### 28. Remuneration of councillors

| | | |
|---|---|---|
| Mayor | 905,259 | 823,033 |
| Deputy Mayor | 715,846 | 662,779 |
| Mayoral Committee Members | 404,593 | 774,241 |
| Speaker | 733,088 | 550,080 |
| Councillors | 3,269,833 | 2,954,115 |
| | **6,029,609** | **5,764,248** |

**In-kind benefits**

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.

### 29. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 16,288,839 | 17,522,553 |
| Intangible assets | 94,949 | 418,327 |
| | **16,383,788** | **17,940,880** |

### 30. Impairment of assets

| | | |
|---|---|---|
| **Impairments** | | |
| Property, plant and equipment | 165,703 | 1,089,902 |
| Intangible asset | - | 10,464 |
| Impairment of Intangible asset | | |
| Trade and other receivables | 4,761,598 | 3,688,044 |
| Receivables from exchange and non exchange transactions | | |
| | **4,927,301** | **4,788,410** |

### 31. Finance costs

| | | |
|---|---|---|
| Interest cost - landfill site | 216,932 | 249,665 |
| Finance leases | 53,093 | 10,807 |
| | **270,025** | **260,472** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

## 32. Lease rentals on operating lease

| | | |
|---|---|---|
| **Premises** | | |
| Contractual amounts | 58,331 | 44,260 |
| **Equipment** | | |
| Contractual amounts | 149,854 | 208,352 |
| **Plant and equipment** | | |
| Contractual amounts | 164,535 | 420,518 |
| | **372,720** | **673,130** |

Operating leases are recognised on straight -line basis as per the requirements of GRAP 13.

## 33. Operational cost

| | | |
|---|---|---|
| Advertising | 883,461 | 1,044,794 |
| Auditors remuneration | 2,087,674 | 1,982,386 |
| Bank charges | 156,627 | 112,552 |
| Burial Services | 5,804 | 9,000 |
| Business and advisory | 3,604,470 | 2,576,984 |
| Catering services | 544,130 | 440,649 |
| Bursaries (Employees) | 214,105 | 96,695 |
| Cleaning services | 29,302 | 20,260 |
| Communication and public participation | 3,226 | - |
| Consumables | 4,719,627 | 5,331,428 |
| Decommissioning Restoration: Landfill sites | 718,552 | 312,539 |
| Fuel and oil | 276,748 | 210,545 |
| Groceries for indigent relief | 132,287 | 916,663 |
| Hire | 128,736 | - |
| IT expenses | 17,448 | 13,652 |
| Insurance | 858,797 | 413,195 |
| Postage and courier | 74,266 | 61,369 |
| Printing and stationery | 105,815 | 451,550 |
| Protective clothing | 490,601 | 229,542 |
| Seminars and conferences | 268,896 | 138,285 |
| Subscriptions and membership fees | 525,996 | 558,655 |
| Telephone costs | 643,098 | 829,006 |
| Title deed search fees | 6,048 | 12,497 |
| Transport and freight | 142,931 | 189,548 |
| Travel - local | 1,654,382 | 1,704,450 |
| Legal services | 1,938,024 | 4,110,743 |
| License and registration | 42,299 | 137,288 |
| Remuneration of Ward Committees | 788,700 | 566,500 |
| Workmans Compensation | 381,145 | 272,718 |
| Medical services | 49,435 | - |
| Professional staff | 697,650 | 294,996 |
| Security services | 8,146,330 | 5,184,367 |
| Artist and performers | - | 186,189 |
| Electrical | 2,693,333 | 165,769 |
| Repairs and maintenance | 5,278,543 | 4,381,293 |
| Prepaid Electricity and Water vendors | 2,521,557 | 1,571,387 |
| | **40,830,043** | **34,527,494** |

## 34. Auditors' remuneration

| | | |
|---|---|---|
| Audit Fees | 2,087,674 | 1,982,386 |

## Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
| --- | --- | --- |

### 35. Cash generated from operations

| | | |
| --- | --- | --- |
| (Deficit) surplus | (11,027,101) | 5,411,896 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 16,383,788 | 17,940,880 |
| Fair value adjustments | 10,370,000 | (2,750,834) |
| Finance costs - Finance leases | 53,093 | - |
| Finance costs | (270,025) | - |
| Impairment loss | 4,927,301 | 4,788,410 |
| Movements in operating lease asset and liability | 30,869 | (44,259) |
| Movements in retirement benefit assets and liabilities | (3,259,292) | (369,750) |
| Movements in provisions | 2,014,346 | (690,717) |
| **Changes in working capital:** | | |
| Inventories | - | 995 |
| Receivables from exchange transactions | (4,842,038) | 556,126 |
| Receivables from non-exchange transactions | (9,872,644) | (4,210,066) |
| Payables from exchange transactions | 733,626 | (11,565,942) |
| VAT | 406,696 | 1,235,831 |
| Taxes and transfers payable (non-exchange) | 2,137,046 | 53,618 |
| Unspent conditional grants and receipts | 6,344,139 | 4,155,460 |
| | **14,129,804** | **14,511,648** |

### 36. Commitments

**Authorised capital expenditure**

| | | |
| --- | --- | --- |
| **Already contracted for but not provided for** | | |
| • Roads Infrastructure | 16,488,961 | 26,820,228 |
| • Community | 1,659,276 | 4,933,086 |
| • Building | 208,434 | 1,387,756 |
| • Electrification | 402,395 | 2,691,724 |
| | **18,759,066** | **35,832,794** |

| | | |
| --- | --- | --- |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 18,759,066 | 35,832,794 |

### 37. Unauthorised expenditure

| | | |
| --- | --- | --- |
| Opening balance as restated | 37,125,380 | 29,741,085 |
| **Opening balance as restated** | **37,125,380** | **29,741,085** |
| Less: Amount written off - prior period | (26,209,089) | - |
| Incurred in the current year | 11,576,293 | 7,384,295 |
| **Closing balance** | **22,492,584** | **37,125,380** |

**Analysed as follows: non-cash**

| | | |
| --- | --- | --- |
| Provision of impairment | 206,293 | - |
| Loss on valuation of Biological Assets - Plantation | 11,370,000 | - |
| | **11,576,293** | **-** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

### 37. Unauthorised expenditure (continued)

**Unauthorised expenditure: Budget overspending – per municipal department**

| | | |
|---|---|---|
| Road Transport | - | 38,161 |
| Executive and Council | - | 3,020,761 |
| Finance and Administration | 206,293 | 3,060,927 |
| Planning and Development | 11,370,000 | 1,264,446 |
| | **11,576,293** | **7,384,295** |

# Notes to the Annual Financial Statements

Figures in Rand

## 38. Irregular expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 36,774,844 | 12,990,285 |
| Correction of prior period error | 1,134,129 | - |
| **Opening balance as restated** | **37,908,973** | **12,990,285** |
| Less: Amount written off - current | (38,985,496) | - |
| Less: Amount written off - prior period | (6,252,392) | - |
| Incurred in the current year | 10,747,254 | 23,784,559 |
| **Closing balance** | **3,418,339** | **36,774,844** |

**Incidents/cases identified in the current year include those listed below:**

| | | |
|---|---|---|
| Bids not advertised on the municipality's website | 989,452 | 14,800,222 |
| Expired contracts | 1,603,525 | 4,157,548 |
| No competitive bidding process followed. | 6,972,798 | 1,872,385 |
| Non compliance with Grant Funding Conditions | 27,584 | 2,081,545 |
| Payments exceed contracted price with no variation order | 775,994 | 240,686 |
| Procurement under Section 36 which does not meet the requirements | - | 87,279 |
| Supplier's tax matters not in order | 377,900 | 134,980 |
| The local Content no specified in the request for quotation | - | 499,895 |
| | **10,747,253** | **23,874,540** |

### 39. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 8,984,223 | 8,862,016 |
| **Opening balance as restated** | **8,984,223** | **8,862,016** |
| Current year expenditure | 1,416,311 | 122,207 |
| **Closing balance** | **10,400,534** | **8,984,223** |

**Expenditure identified in the current year include those listed below:**

| | | |
|---|---|---|
| No value for money | 1,416,311 | 122,207 |

### 40. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next Council meeting and includes a note to the annual financial statements.

The reasons for deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviations from the normal supply chain management regulations.

| **Summary of deviations** | | |
|---|---|---|
| Supplier is the single source provider | - | 951,922 |
| unapproved providers used | - | 22,977 |
| Initial supplier had to be used to service the vehicle per contact | - | 80,799 |
| | **-** | **1,055,698** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

## 41. Additional disclosure in terms of Municipal Finance Management Act

### Contributions to organised local government

| | | |
|---|---|---|
| Current year subscription / fee | 500,000 | 500,000 |
| Amount paid - current year | (500,000) | (500,000) |
| | - | - |

### Audit fees

| | | |
|---|---|---|
| Current year subscription / fee | 2,087,674 | 1,982,386 |
| Amount paid - current year | (2,087,674) | (1,982,386) |
| | - | - |

### PAYE and UIF

| | | |
|---|---|---|
| Current year subscription / fee | 6,540,609 | 6,540,609 |
| Amount paid - current year | (6,540,609) | (6,540,609) |
| | - | - |

### Pension and medical aid deductions

| | | |
|---|---|---|
| Current year subscription / fee | 7,863,047 | 7,863,047 |
| Amount paid - current year | (7,863,047) | (7,863,047) |
| | - | - |

### VAT

| | | |
|---|---|---|
| VAT receivable | 2,872,800 | 3,279,496 |

VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

### 42. Contingencies

**Case** 1

Z.J.Funeka claims damages against the Municipality based on defamation of character. The action is based on vicarious liability. The trial was postponed *sine die* due to National Lockdwon.

**Case** 2

Municipality was sued as a party to eviction proceedings instituted in the Lands Claim Court pursuant to an illegal occupation of a farm in Richmond which farm is subject to a land claim. The Municipality was joined in these proceedings pursuant to its constitutional obligation to provide alternate adequate accommodation. Matter was eventually settled on the basis that the affected persons will be provided temporary accommodation by the Municipality at a designated location.

Municipality was sued as a party to eviction proceedings instituted in the Richmond Magistrate Court pursuant to PIE legislation. However given that the property in question is a commercial one, the Municipality should not have been joined in these proceedings. This was raised with the Court and the applicant. The applicant wasordered to pay the cost and is in the process of formally withdrawing claim against Municipality

The table below sets out the contingent liabilities at year end with the maximum potential liability to the municipality:

| | | |
|---|---|---|
| **Summary of contingent liabilities :** | | |
| Case 1 | 1,300,000 | 250,000 |
| Case 2 | 22,483 | 22,483 |
| | **1,322,483** | **272,483** |

### 43. Risk management

**Financial risk management**

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

**Liquidity risk**

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
| --- | --- | --- |

## 43. Risk management (continued)

### Credit risk

Credit risk consists mainly of receivables from customers and investment securities.. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument | 2020 | 2019 |
| --- | --- | --- |
| Cash and cash equivalents | - | 23,889,600 |
| Other financial assets | 266 | 266 |
| Receivables from exchange transactions | - | 824,392 |
| Receivables from non-exchange transactions | - | 17,309,547 |

### Market risk

### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately X% of its borrowings in fixed rate instruments. During 2020 and 2019, the municipality's borrowings at variable rate were denominated in the Rand..

## 44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 45. Events after the reporting date

No event that should be disclosed has come to the municipalities attention after the reporting date that existed at reporting date.

## 46. Comparative figures

Certain comparative figures have been restated, refer to note 47 - Prior-year adjustments for the detail.

## 47. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

### 47. Prior-year adjustments (continued)

**Statement of financial position**

**2019**

| | Note | As previously reported | Correction of error | Re-classification | Restated |
|---|---|---|---|---|---|
| Current assets | | - | - | - | - |
| Receivables from exchange transactions | | 824,392 | (91,019) | - | 733,373 |
| Receivables from non-exchange transactions | | 17,309,547 | (20,184) | - | 17,289,363 |
| VAT receivable | | 4,320,650 | (1,041,154) | - | 3,279,496 |
| Cash and cash equivalents | | 23,889,600 | - | - | 23,889,600 |
| | | - | - | - | - |
| Non-current assets | | | | | |
| Biological assets | | 13,759,506 | - | - | 13,759,506 |
| Investment property | | 1,185,899 | - | - | 1,185,899 |
| Property, plant and equipment | | 338,934,284 | 147,151 | - | 339,081,435 |
| Intangible assets | | 648,942 | 11,907 | - | 660,849 |
| Heritage assets | | 212,767 | - | - | 212,767 |
| Other non-current asset | | 266 | - | - | 266 |
| | | - | - | - | - |
| Current liabilities | | | | | |
| Finance lease obligation | | (201,891) | - | - | (201,891) |
| Operating lease liability | | (478,884) | - | - | (478,884) |
| Payables from exchange transactions | | (16,583,920) | 3,858,011 | 218,719 | (12,507,190) |
| Payables from non-exchange transactions | | (2,704,509) | 2,021,530 | (218,719) | (901,698) |
| Employee benefit obligation | | (284,284) | - | - | (284,284) |
| Unspent conditional grants and receipts | | (7,713,925) | (712,123) | - | (8,426,048) |
| Provisions | | (3,597,865) | - | - | (3,597,865) |
| | | - | - | - | - |
| Non-current liabilities | | | | | |
| Finance lease obligation | | (428,153) | - | - | (428,153) |
| Employee benefit obligation | | (10,938,008) | - | - | (10,938,008) |
| Provisions | | (6,716,160) | - | - | (6,716,160) |
| | | - | - | - | - |
| Net assets | | | | | |
| Accumulated (surplus)/deficit | | (351,438,254) | (4,174,119) | - | (355,612,373) |
| | | - | - | - | - |

**47. Prior-year adjustments (continued)**

**Statement of financial performance**

**2019**

| | Note | As previously reported | Correction of error | Re-classification | Restated |
|---|---|---|---|---|---|
| Revenue from exchange transactions | | - | - | - | - |
| Service charges | | 1,046,465 | - | - | 1,046,465 |
| Rental of facilities and equipment | | 1,085,809 | - | - | 1,085,809 |
| Fair value adjustments | | 925,771 | - | (925,771) | - |
| Other income | | 425,110 | - | - | 425,110 |
| Interest earned - External investments | | 2,528,939 | - | - | 2,528,939 |
| Interest earned - Outstanding debtors | | 268,579 | - | - | 268,579 |
| | | - | - | - | - |
| Revenue from non-exchange transactions | | | | | |
| Property rates | | 17,215,842 | - | - | 17,215,842 |
| Property rates - penalties imposed | | 3,020,026 | - | - | 3,020,026 |
| Licences and permits (non-exchange) | | 529,235 | - | - | 529,235 |
| Government grants and subsidies | | 89,061,398 | - | - | 89,061,398 |
| Fines, penalties and forfeits | | 251,600 | - | - | 251,600 |
| | | - | - | - | - |
| Expenditure | | | | | |
| Employee related costs | | (48,817,307) | - | - | (48,817,307) |
| Remuneration of councillors | | (5,764,248) | - | - | (5,764,248) |
| Depreciation and amortisation | | (17,940,880) | - | - | (17,940,880) |
| Impairment loss | 14 | (8,904,028) | 4,115,618 | - | (4,788,410) |
| Finance costs | | (260,472) | - | - | (260,472) |
| Lease rentals on operating lease | | (673,130) | - | - | (673,130) |
| Operational costs | | (34,527,494) | - | - | (34,527,494) |
| Fair value adjustments | | - | - | 925,771 | 925,771 |
| Actuarial (gains)/losses | | 1,825,063 | - | - | 1,825,063 |
| **Surplus for the year** | | **1,296,278** | **4,115,618** | **-** | **5,411,896** |

**Errors**

The following prior period errors adjustments occurred:

**Receivables from exchange transactions**

The municipality discovered that receivables from exchange transactions were incorrectly presented in the annual financial statements, the 2018/19 figures have been adjusted to correctly reflect the amounts for receivables from exchange transactions. The effect of this correction is presented below:

**47. Prior-year adjustments (continued)**

| | | |
|---|---|---|
| **Receivables from exchange transactions** | | |
| Increase in receiables from exchange transaction - refuse debtors | - | 93,774 |
| Increase in receiables from exchange transaction | - | (184,792) |
| Net effect on accumulated surplus | - | 91,018 |
| | - | - |

**Receivables from non- exchange transactions**

It was discovered that there were certain government owned properties which were incorrectly classified as privately-owned properties. These properties were therefore erroneously included in the computation of impairment provision in the 2018 financial year. Therefore, the property rates provision for impairment was overstated. The opening balances were restated to reflect the fair presentation of the Richmond Local Municipality affairs

| | | |
|---|---|---|
| **Receivables from non-exchange transactions** | | |
| Increase in receivables from exchange transaction - property rates | - | 2,154,722 |
| Decrease in receivables from exchange transactions - sundry debtors | - | (2,174,906) |
| Net effect on accumulated surplus | - | 20,184 |
| | - | - |

**Understatement of INEP Grant Liability (Unspent Grants)**

It was discovered during the 2019/20 financial year that the closing balance for the INEP grant was understated by R712 12.310 at the end of the 2018/19 financial year. The current liabilities were therefore understated and the related revenue overstated by R712 123.10. For the identified prior period error, the figures must be retrospectively restated, with the effect being an increase in the current liabilities at year end 2018/2019. :

| | | |
|---|---|---|
| **Unspent Grants** | | |
| Increase in unspent grant liability | - | (712,123) |
| Decrease in payables from exchange transactions | - | 712,123 |
| | - | - |

**Decrease in VAT receivable**

The municipality performed a detailed review of the VAT accounts in respect from 20117/18 to 2019/20 and discovered VAT amount as disclosed in the financial statements were overstated by an amount of R 1 041 154. The necessary corrections in respect of the prior period have been processed. The illustration and impact of the correction is shown below:

| | | |
|---|---|---|
| **VAT Receivable** | | |
| Decrease in vat receivable | - | 1,041,154 |
| Decrease in accumulated surplus | - | (1,041,154) |
| | - | - |

**Decrease in paybles from exchange transactions**

The municipality discovered that the trade payables from exchange transactions at year end were overstated. This was due to errors relating to the allocation and processing of data on the financial system, as well as the incorrect inclusion of advance payments received from payables from non-exchange transactions.

The following illustrates the net corrections to the payables from exchange transactions as previously disclosed

-

# Notes to the Annual Financial Statements



### 47. Prior-year adjustments (continued)

**Reconciliation of payables from exhange transactions**

| | | |
|---|---|---|
| Decrease due to trade creditors not being cleared on the creditors age analysis | - | 2,253,071 |
| Decrease in retentions | - | 892,817 |
| Decrease due to reclassification | - | 218,138 |
| Decrease due to correction of INEP related creditor (See below) | - | 712,123 |
| Increase in unspent grant liability | - | (712,123) |
| Net increase in accumulated surplus | - | (3,364,026) |
| | - | - |

**Decrease in payables from non-exchange transanctions**

During the 2019/20 financial year, it was discovered that payments received in advance were overstated for the 2018/19 financial year. Payments received in advance were also incorrectly classified to payables from exchange transactions. The comparative figures have been restated to correct this prior period error. The total correction amounted to R 1802 811T

**Capital Commitments**

| | | |
|---|---|---|
| Opening balance | - | 34,958,620 |
| Adjustments made | - | 874,174 |
| **Restated opening balance** | **-** | **35,832,794** |

Adjustment made to prior year closing balance of Capital Commitment is due to Capital Commitment being overstated in the prior financial year.

**Irregular expenditure**

| | | |
|---|---|---|
| Opening balance | - | 36,774,844 |
| Adjustments made | - | 1,134,129 |
| **Restated opening balance** | **-** | **37,908,973** |

Adjustment made to prior year closing balance of irregualr expenditure is due to irregular expenditure not included in the prior financial year.

### 48. Non-curent Investment

| | | |
|---|---|---|
| **Unlisted Investment** | | |
| Unlisted Shares | 266 | 266 |
| No specific maturity date and interest rates | | |

| | | |
|---|---|---|
| **Non-current assets** | | |
| Investment at cost | 266 | 266 |

Unlisted Investment comprises of unliste shares in a co-operative with no specific maturity dates or interest rates.